

Appasaheb R. B. Garud college  
shendurni

# Market

**Prof . A.V.Jawale**

**H.O.D. dept.of Economics**

# *PRICE DETERMINATION IN MARKETS*

The market demand curve shows the amount demanded at every price.

The market supply curve shows the amount supplied at every price.

The question now is whether there is some price at which the quantities supplied and demanded are the same.

# EQUILIBRIUM PRICE DEFINED

The equilibrium price of a good is:

a price at which quantity supplied equals quantity demanded.

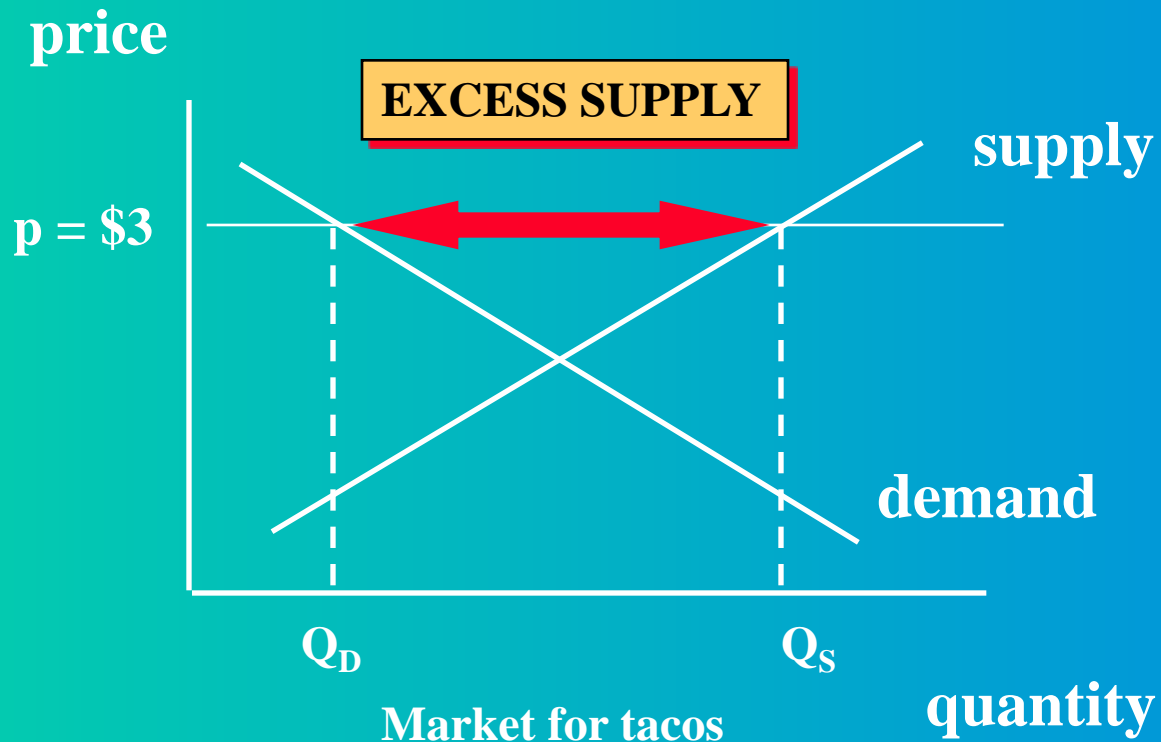
a price at which excess demand equals zero.

**At the equilibrium price there is no net tendency for price to change.**

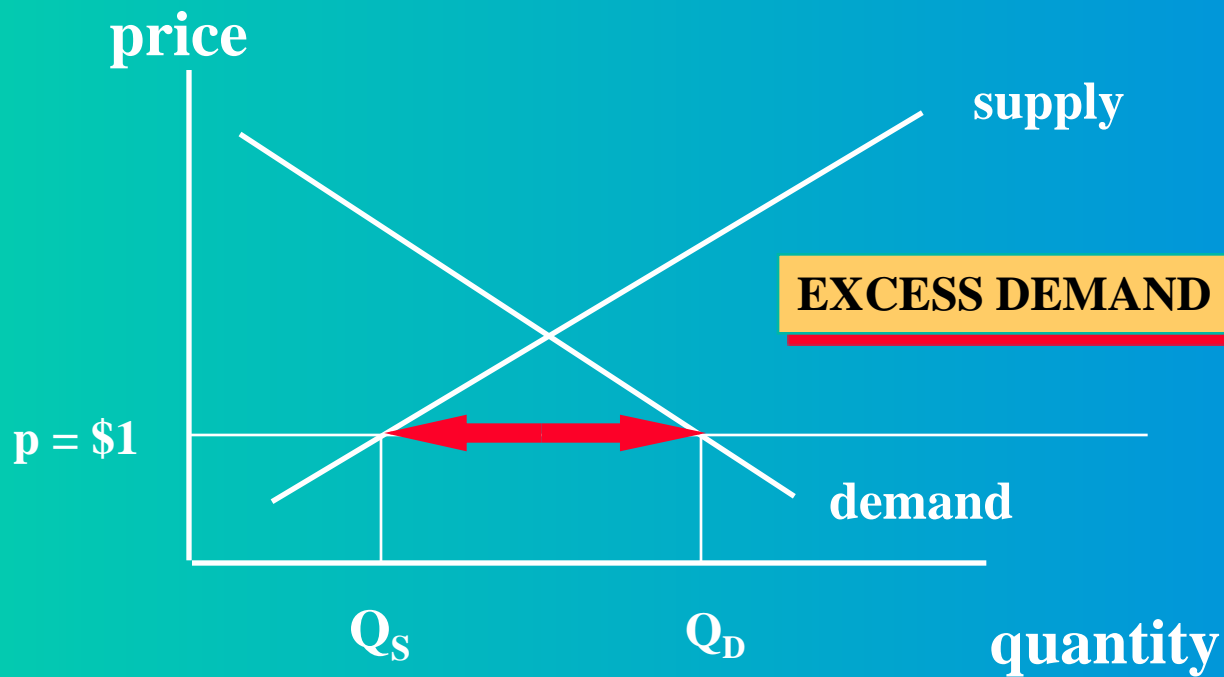
*Excess demand* exists when, at the current price, the quantity demanded is greater than quantity supplied.

*Excess supply* exists when, at the current price, the quantity supplied is greater than the quantity demanded.

$$\text{Excess supply} = Q_S - Q_D$$



$$\text{Excess demand} = Q_D - Q_S$$



Market for tacos

When there is **EXCESS DEMAND** for a good, price will tend to rise.

When there is **EXCESS SUPPLY** of a good, price will tend to fall.

When excess demand equals zero, price must be the equilibrium price, and we say the market is in equilibrium.

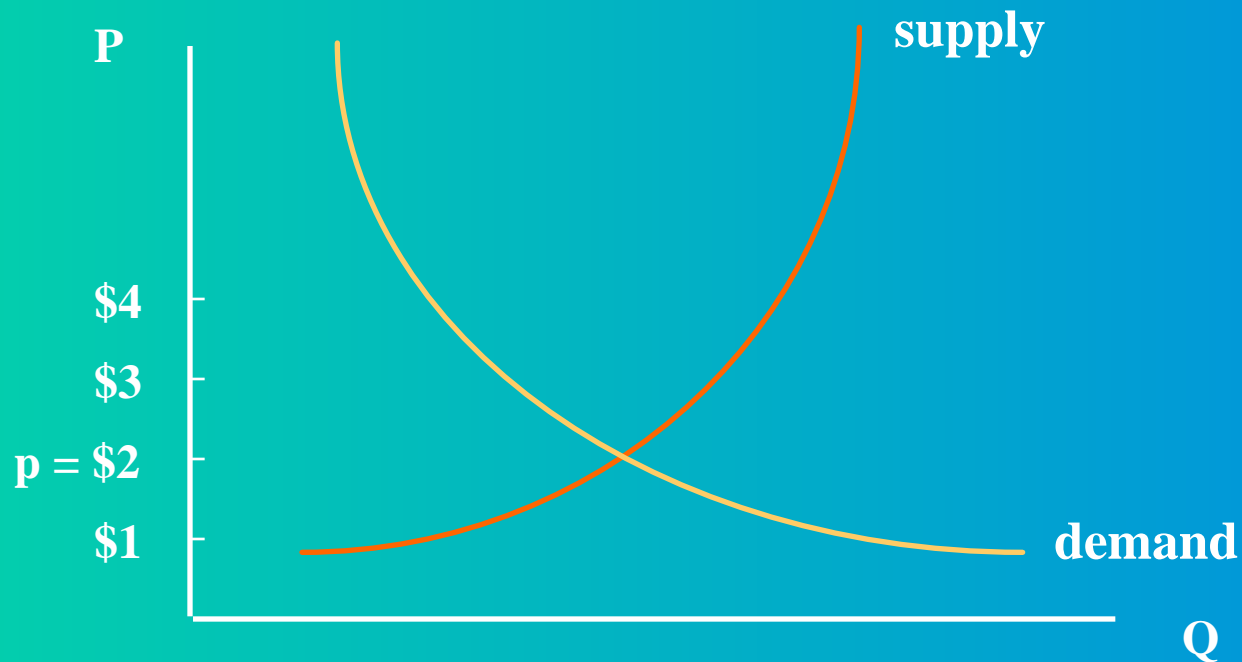
**If you want to find out the price at which a market is in equilibrium, then look for the price where the excess demand is zero.**



Economists are interested in the explaining equilibrium prices.

In particular, they are anxious to explain why equilibrium prices change.

What is the equilibrium price in the market for tacos? Show it on the diagram. What is the equilibrium quantity of tacos?



**TACO MARKET**

# How can the price of tacos change?

Only if there is a change in supply, or if there is a change in demand.

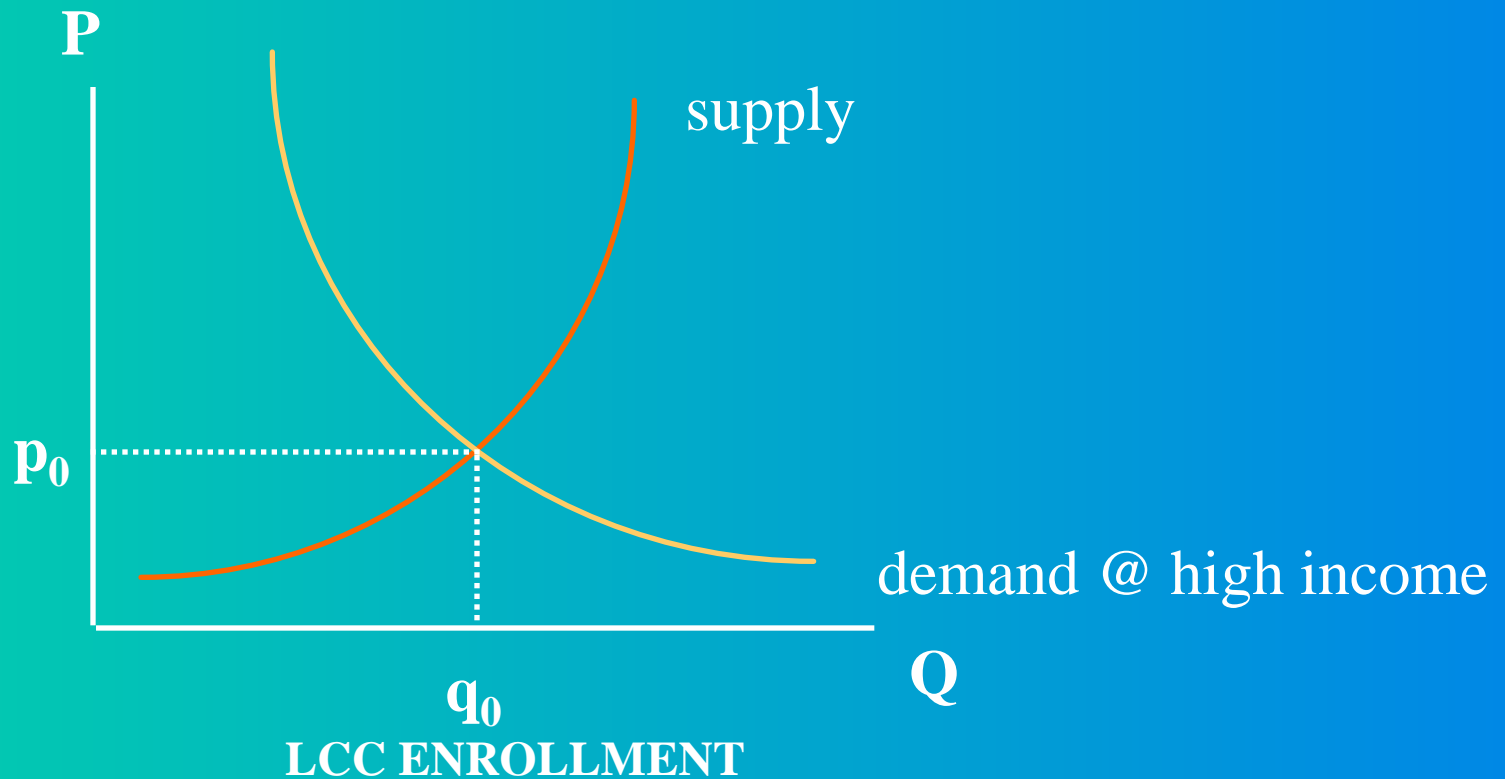
But remember, we already know the list of reasons why supply and demand can change.

Changes in demand can be caused by:

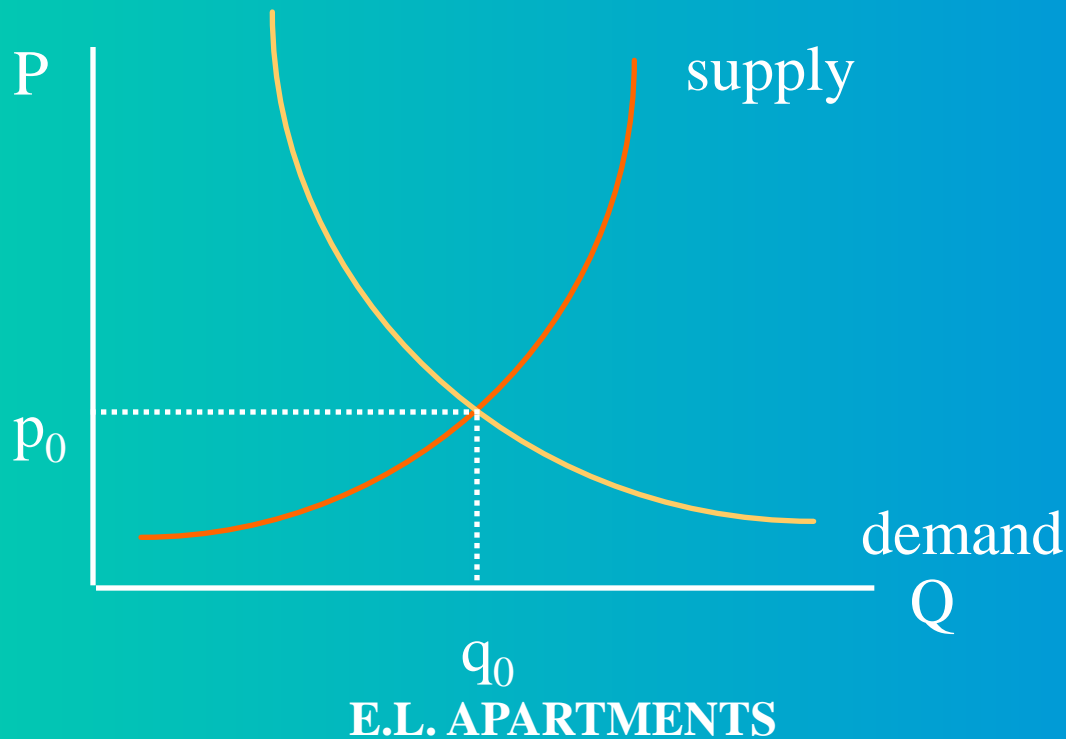
Changes in supply can be caused by:

The following is a series of sample problems showing changes in the equilibrium prices of some goods.

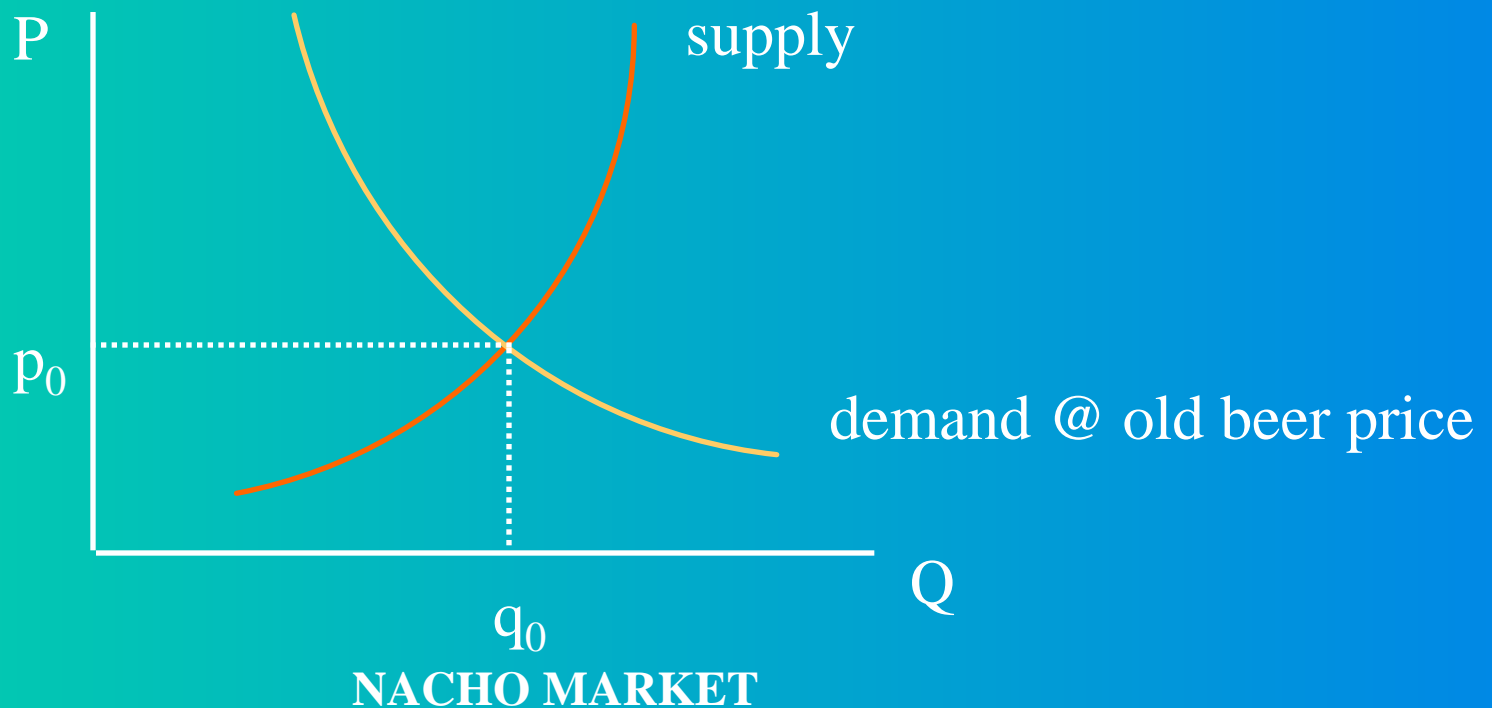
Classes at Lansing Community College are an inferior good. People's incomes fall, perhaps due to a recession. What is the effect on LCC tuition and enrollment?



THE MARKET FOR APARTMENTS IN EAST LANSING IS IN EQUILIBRIUM, AND MSU RAISES THE PRICE OF DORM ROOMS. WHAT IS THE EFFECT ON THE MARKET FOR APARTMENTS IN EAST LANSING?

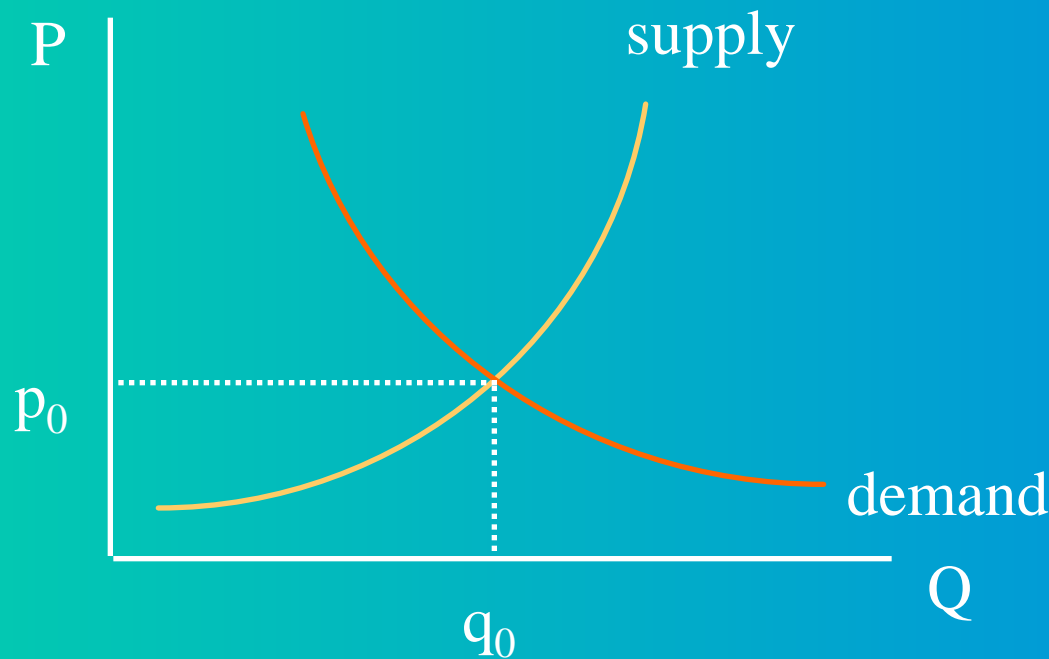


Nachos and beer are complements. The price of beer rises. What is the effect on the market for nachos?





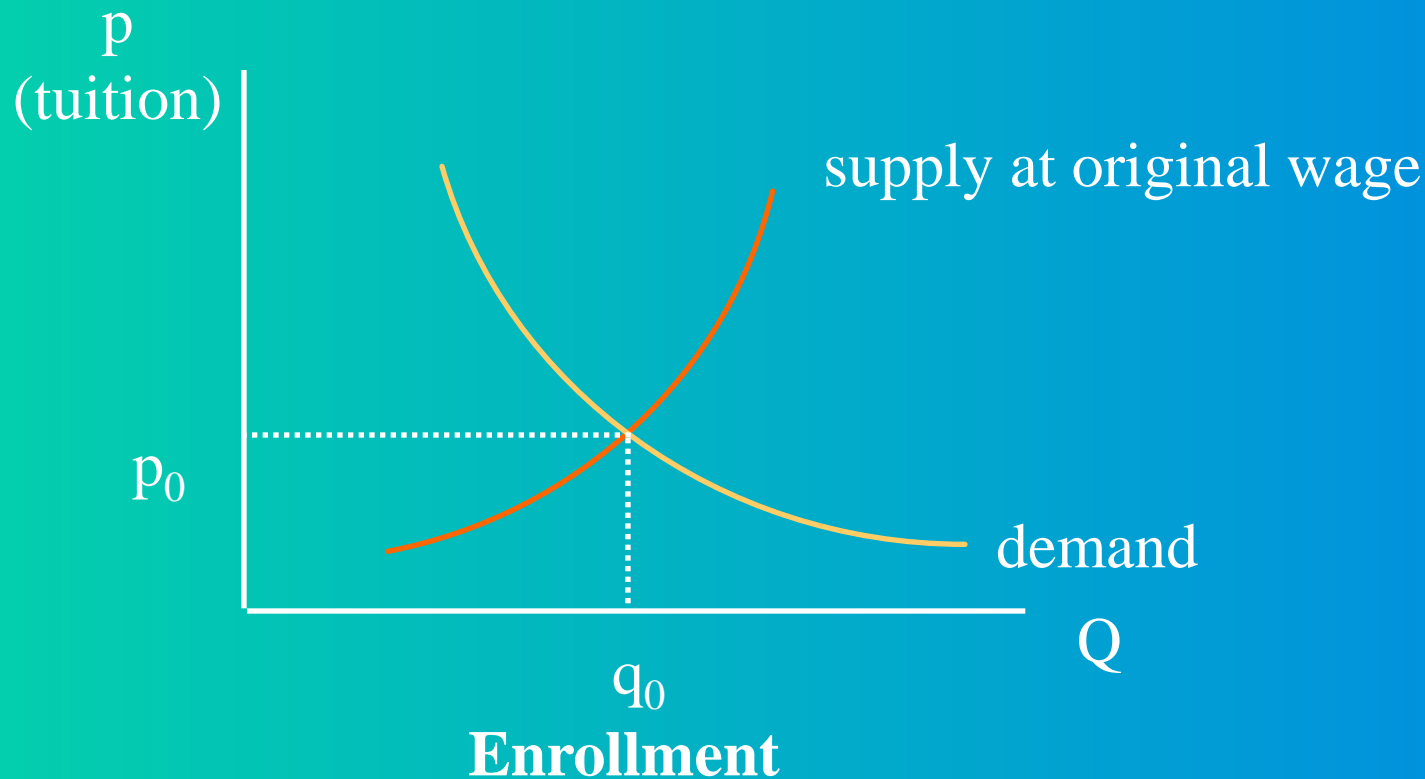
People come to believe that eating apples is good for them. The more apples they eat, the more likely they are to stay well. What is the effect on the market for apples?



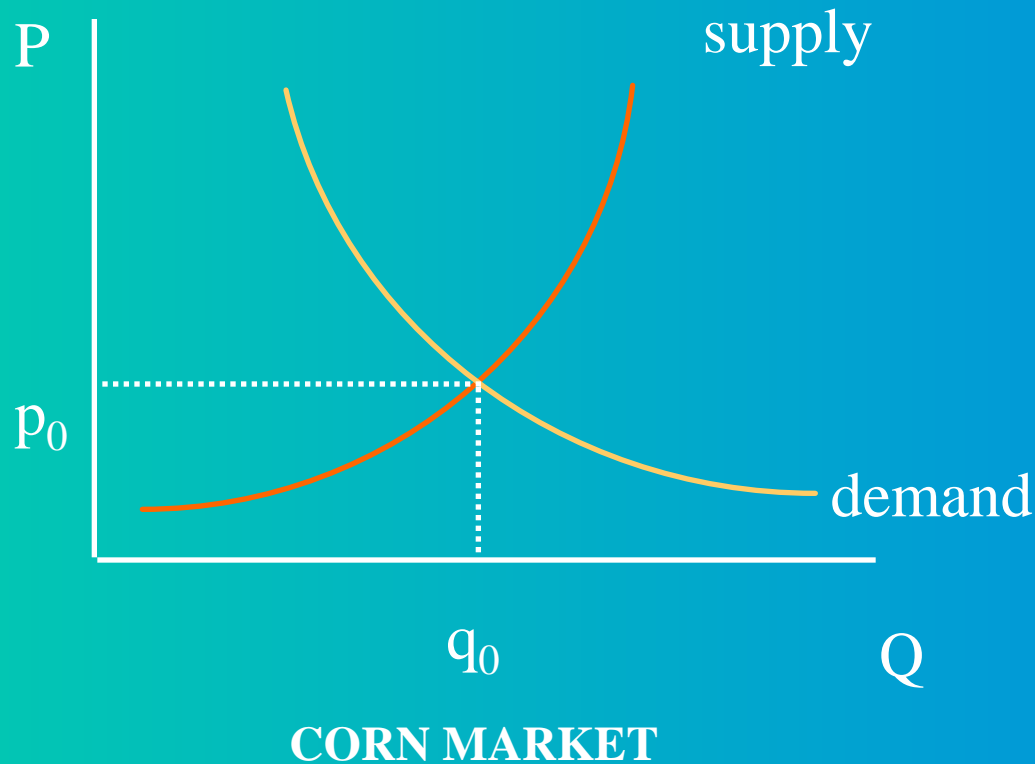
APPLE MARKET

Classes at universities are produced using faculty labor services, and other inputs like buildings and computers. The faculty salaries increase by 10%.

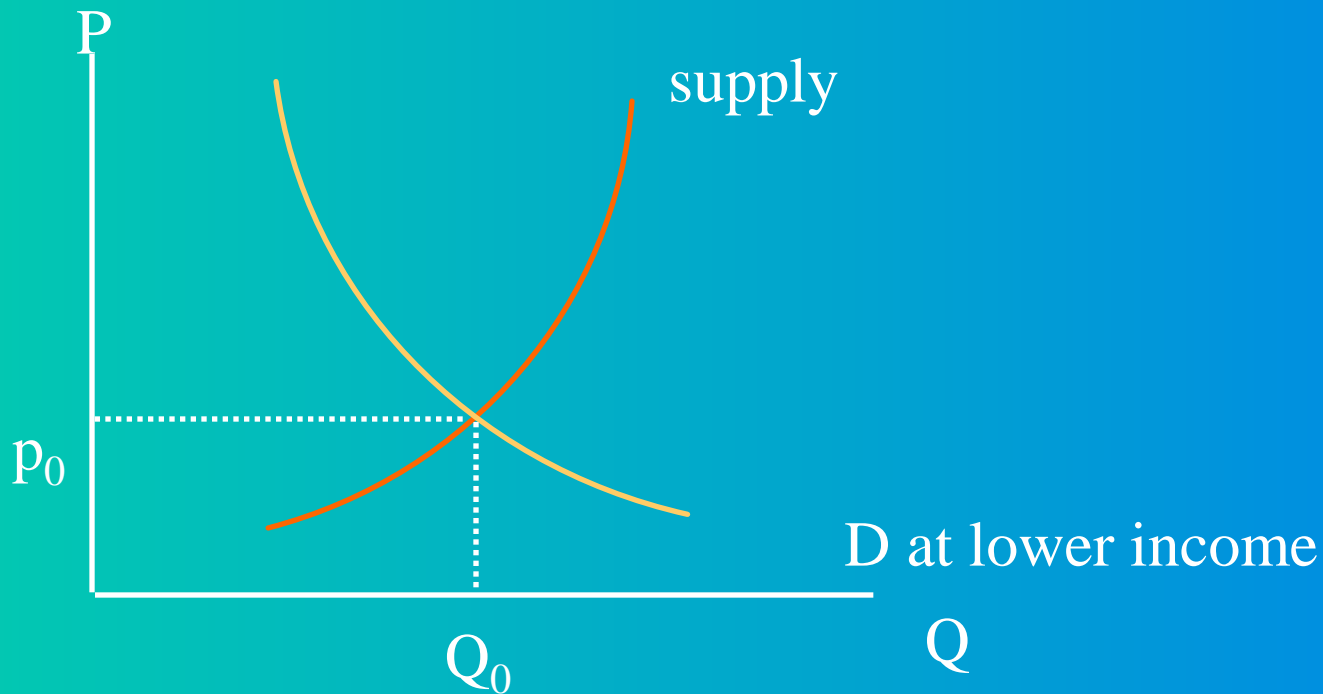
What is the effect on tuition and enrollment at universities?



MSU agricultural scientists develop a new strain of corn that increases yields by about 15%.  
What is the effect of the improvement in technology on the market for corn?



THE MARKET FOR MEDICAL CARE IS IN EQUILIBRIUM, AND CONSUMERS' INCOMES INCREASE. WHAT IS THE EFFECT ON MARKET PRICE?



MEDICAL CARE MARKET

# *SUPPLY/DEMAND SUMMARY*

Market price serves as the adjustment mechanism to move markets to equilibrium.

Price changes in response to the existence of excess demand or excess supply.

Changes in demand and changes in supply lead to changes in equilibrium prices and quantities.